

**Opening Statement**  
**HON. JOHN J. LaFALCE**  
**Subcommittee on International Monetary Policy & Trade**  
**Hearing on Argentina**  
**10:00 a.m., February 6, 2002**

Welcome, Dr. Taylor. It is a pleasure to see you again. The situation in Argentina appears not to have improved significantly since last December when we met in my office. I recall that your assessment of Argentina at that time was frank and direct, and I look forward to your comments today.

For the most part, I am not interested in finger-pointing in terms of laying blame for the crisis in Argentina on the International Monetary Fund or the U.S. Treasury. I think this has been a crisis largely of Argentina's making. Certainly, Argentina suffered from some bad luck in terms of external economic shocks. Nonetheless, much of what went wrong there was the result of bad policy decisions within Argentina.

That said, I am troubled by one aspect of the crisis that does trace back to the role of the IMF and perhaps our Treasury Department. Argentina's decision to maintain their currency board until late last year has to be seen, in retrospect, as a colossal failure. Yet, we didn't even need the benefit of retrospection on this point. When people talk about the slow-motion train wreck in Argentina last year, it is the currency board that they are referring to. That is, observers knew for many, many months that the currency board had become unsustainable, and Argentina's continued efforts to maintain it were drawing the country closer and closer to a financial collapse.

Yet, there is little evidence that the IMF saw fit to urge the Argentine government to abandon the currency board. In fact, Fund officials themselves have suggested that it is the Fund's policy to accept whatever currency arrangement a member country chooses for itself. So presumably, if Argentina had decided to peg the peso to the price of Enron stock, the Fund would have been ok with that.

I am interested in your views, Dr. Taylor, on this particular aspect of the crisis, and where Treasury and the Fund were in terms of offering critical assessments of the currency board over the past 12 to 18 months. It seems to me that Fund officials have not been shy since last December in pointing to the problems with the dual exchange rate system that was adopted as an interim measure in Argentina. This criticism was justified in my view; clearly, the dual rate system was not a good idea, and it is a good sign that the Duhalde government has decided to abandon it. But criticism of the dual rate stands in stark contrast to the lack of similar criticism of the currency board during the previous two years.

Let me briefly comment on next steps in Argentina. Just as this was a crisis largely of Argentina's making, I also believe that much of the hard work toward getting the Argentine economy and financial system back on track will be Argentina's responsibility. At the same time, I believe the United States and the international institutions have an important role to play in supporting reform efforts there.

Resumption of IMF loan support will be critical in the coming months. But more than that, I believe an aid package through the World Bank and the Inter-American Development Bank will be essential to restoring political and social stability in Argentina. As the IMF's own research suggests, financial crises often fall hardest on a country's most vulnerable social groups. In Argentina's case, fiscal reform will be necessary to resolve debt payment problems; but fiscal austerity should not come at the expense of a strong social safety net. The World Bank and IDB can be very useful in this regard, and I look forward to supporting these efforts in the months ahead.

F:\Argentina\argentina hearing stmt